



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

AUDIT REPORT
Issue Date: March 2, 2000
Number: 0-07

To: Thomas E. Bergdoll, Jr.
District Director, Boise District Office

From: Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit of the Idaho Falls Regional Small Business Development Center

We completed an audit of the Idaho Falls Regional Small Business Development Center (the Center) as a result of a former employee's complaint alleging management improprieties. The Center provides counseling, training and specialized support to small businesses as part of the Idaho Small Business Development Center (ISBDC) network. The Center is a tenant of the Idaho Innovation Center (IIC), a local incubator for small business ventures. Idaho State University (ISU) partially funds the Center in its capacity as the Center's host institution. ISU's records show that the Center received Federal funds totaling \$38,675 and \$39,514, for 1996 and 1997, respectively.

OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Center's activities were in conformance with applicable laws, regulations and policies. During the audit, we reviewed accounting records, program reports, and client files. We also interviewed Center, ISBDC, IIC and ISU officials. We were unable to obtain adequate supporting documentation for some training and accordingly, could not determine if the Center's activities with regards to the training were in conformance with applicable laws, regulations and policies. We were also unable to trace training revenue to account deposits and as a result, could not determine if the Center's revenue collections and deposits were in conformance with applicable laws, regulations and policies. The audit covered Center operations from 1996 through 1998. Fieldwork was performed from November 1998 through July 1999 at the ISBDC lead center in Boise, Idaho and at the Center in Idaho Falls, Idaho. The audit was performed in accordance with Government Auditing Standards.

RESULTS OF AUDIT

We identified \$31,892 of claimed costs that were unallowable because they were not in accordance with the cooperative agreement and Office of Management and Budget (OMB) Circulars. We also found that the Center overstated training and counseling accomplishments, performed untimely client follow-up, and made various errors in reporting program income. In addition, the Center did not maintain complete records for training activities, revenue deposits and conference room rental agreements.

FINDING 1: Unallowable Costs

The Center claimed costs totaling \$31,892 that were unallowable because they were unallocable, unreasonable or unsupported. These costs included (1) inadequately supported in-kind contributions, (2) inadequately supported consulting payments, and (3) an improper travel reimbursement. OMB Circular A-21 Costs Principles for Educational Institutions states that costs must be reasonable and allocable in order to be allowable. The cooperative agreement requires the ISBDC to maintain complete and accurate records, as well as supporting documentation to support and facilitate any thorough financial and/or program audit. The ISBDC was required to provide matching funds equal to the amount of SBA funding, and at least 50 percent of the matching funds were required to be in the form of cash. Due to the \$413,698 and \$517,952 reported cash overmatch of the ISBDC in 1996 and 1997, respectively, this report will not include recommendations that funds be remitted to SBA for unallowable costs.

Inadequately Supported In-kind Contributions

The Center claimed donated services of \$9,921 and \$12,487 as in-kind match that were not adequately supported for 1996 and 1997, respectively. OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations requires that all contributions, including cash and third party in-kind, be verifiable from the recipient's records. The Circular also states that the basis for determining the valuation for personal service shall be documented. We found that the support for the claimed donated services was inadequate because it did not contain a sufficient description of the services provided, the basis used to determine the value of the services, and supporting data on the contributors. We also found that \$1,255 of the donated services claimed in 1996 were actually allocable to 1995.

SBA previously noted that the ISBDC's 1995 in-kind match was insufficiently supported in an examination report dated September 25, 1996. In response to that

examination, the ISBDC State Director stated that support for all future in-kind match would include:

- Name and phone number of the contributor
- Basis for valuation of goods or services
- Description of goods or services provided

As discussed above, support for in-kind contributions after the date of the examination report still contained some of the same problems that the State Director had previously agreed to correct.

Inadequately Supported Consulting Payments

The Center made payments totaling \$9,225 to a consultant, [FOIA Ex. 4 & 6], which were inadequately supported. Of this amount, \$7,925 was charged to Federal funds and \$1,300 was charged to program income. The cooperative agreement requires the ISBDC to maintain complete and accurate records, as well as supporting documentation to support and facilitate any thorough financial and/or program audit. [FOIA Ex. 4&6] provided consulting services for Nx Level training programs to the Center in 1996 and 1997. The Center did not have a written agreement with the consultant describing the services to be provided and/or payment terms. The description of services provided on each invoice was vague, and we were unable to determine the exact type of service provided. Some of the monthly invoices did not specify the days and hours per day that consulting/training was provided.

Additionally, it appeared that the Center may have been double billed and may have made double payments for services provided from January to May of 1997. Due to the lack of clarity and supporting documentation for the specific dates and hours of services provided, there was no assurance that the Center did not make double payment for services provided during these months.

Improper Travel Reimbursement

The Center paid a travel reimbursement totaling \$259 that was not justified. The Center Director approved separate mileage reimbursements for two people when they traveled in the same vehicle.

The Center Director and 2 business counselors traveled to Boise, Idaho and Salt Lake City, Utah in November 1997. All 3 individuals traveled together in 1 vehicle to Boise and Salt Lake City. Accordingly, only one mileage claim should have been submitted for reimbursement. The Center Director and one of the counselors both submitted mileage claims and were each reimbursed \$259. The Center Director approved the mileage reimbursement for the one counselor even though she also submitted the same mileage claim.

Recommendations

We recommend that the District Director of the SBA Boise District Office require the ISBDC State Director to:

- 1A. Submit a written plan to SBA explaining how he plans to ensure that all future in-kind match will be adequately supported.
- 1B. Direct the Center to develop written signed agreements with all paid consultants describing the services to be provided and payment terms.

Auditee Comments

The ISBDC State Director agreed the travel reimbursement was improper and recovered the \$259. Although the State Director agreed that the supporting documentation form for in-kind contributions could be improved by adding more detailed information about the donor, he did not agree with the recommendation to submit a written plan to SBA explaining how in-kind match would be adequately supported. The State Director did not agree that the payments to the consultant were inadequately supported, but he agreed with the recommendation to develop written agreements with paid consultants. The State Director's comments are included as Attachment 1. His reasons for disagreement follow.

- In-kind contributions – The ISBDC does have a written policy that requires adequate documentation of in-kind contributions and the state office is in the process of developing a systematic, on-site review of all financial documentation to ensure documentation meets standards.
- Consulting payments - Center time reports show the consultant actually worked 359.35 hours, but only billed for 154.5 hours. The training classes taught by the consultant and the related consulting with small business clients clearly support the reasonableness of the invoices.

Evaluation of Auditee Comments

We continue to support our findings that in-kind contributions and consulting payments were inadequately supported. We also believe that our recommendations are valid for the following reasons.

- In-kind contributions - Although the ISBDC may have a written policy that requires adequate documentation of in-kind contributions and the state office may be in the process of developing a review of all financial documentation, our audit and a previous SBA examination determined that the support for in-kind contributions was not in accordance with OMB Circular A-110. Additionally,

during the exit conference, the State Director admitted he was unable to accomplish everything he agreed to as a result of the previous SBA examination. Accordingly, we believe the submission of a written plan to SBA explaining how the State Director plans to ensure that all future in-kind match will be adequately supported will assist the ISBDC in complying with OMB Circular A-110.

- Consulting payments - While Center time reports generally support the number of hours billed by the consultant, the vagueness of the invoices, and the lack of a written agreement between the Center and the consultant, prevented the auditors from tracing the invoiced hours to the time reports to verify the adequacy of the consulting payments. The supporting documentation was not adequate to support the reasonableness of the consulting payments and therefore, we continue to support our position that written, signed agreements with all paid consultants should be developed.

FINDING 2: Overstated Training Accomplishments

Training provided to Center and IIC employees was incorrectly reported to SBA on Form 888 as training provided to small business persons and entities. Title 13 CFR 130.340 states that the SBDC network shall provide prospective and existing small business persons and entities with counseling, training and specialized services. The Center reported to SBA that Microsoft Satellite Downlink Training was given on April 18, 1996 and May 16, 1996. The attendance lists for the sessions indicated that all the attendees were SBDC and IIC employees. As a result, the training accomplishments for 1996 were overstated.

Recommendation

- 2A. We recommend that the District Director of the SBA Boise District Office require the ISBDC State Director to implement controls to prevent employee training from being counted as training to the small business community on SBA Form 888.

Auditee Comments

The ISBDC State Director agreed with our finding and recommendation and stated that the State Office would instruct the Centers on the proper criteria for reporting training and to implement oversight procedures.

Evaluation of Auditee Comments

The ISBDC State Director's planned actions are responsive to our recommendation.

FINDING 3: Overstated Counseling Accomplishments and Untimely Client Follow-up

Counseling hours reported by the Center were overstated and client file follow-up was not performed within the required time frame.

Overstated Counseling Hours

The Center overstated its counseling hours by 69 hours (3%) in 1997 and by 98.25 hours (4%) in 1998. The Center reported that it rendered approximately 2,356 hours of counseling in 1997, and approximately 2,270 hours of counseling in 1998. Counseling hours were overstated due to the reasons cited below:

- Visits to an Economic Development Officer (EDO) and a Business Information Center Director (BICD) were reported as counseling although the EDO and BICD are not small business persons. Specifically, 65 hours and 51.75 hours were reported as counseling in 1997 and 1998, respectively. Title 13 CFR 130.340 states that the SBDC network shall provide prospective and existing small business persons and entities with counseling, training and specialized services.
- Time expended by secretaries closing client files was reported as counseling. Specifically, 4 hours and 46.5 hours were reported as counseling in 1997 and 1998, respectively.

In addition to the above, we made the following observations:

- A counselor allegedly rendered more than 24 hours of counseling in a single day on four days in 1996. For example, counseling records indicated that the counselor provided 48.5 hours and 36 hours of counseling on June 11, 1996 and August 22, 1996, respectively.
- Travel time was claimed two or more times if more than one client was visited in the same location. For example, on June 10, 1996, a counselor visited five different clients in Arco, Idaho. Although a roundtrip to Arco is 139 miles, travel time of 2.5 hours was recorded 5 different times for a total of 12.5 hours. Likewise, the same counselor visited eight different clients in Mackay, Idaho on June 11, 1996. Although a roundtrip to Mackay is 193 miles, the counselor recorded travel time of 3 hours seven different times for a total of 21 hours. The Center Director stated that travel time should be divided among the clients.

Client Follow-up Not Performed Within 120 Days

The Center allowed 56 out of 128 client files to remain open for more than 120 days without a documented follow-up review or counseling session during 1998. The cooperative agreement states that SBDC client files shall not remain open more than 120 days without a documented follow-up review or counseling session. The Center Director stated that the Center's policy was to close files at the end of the year. As a result, the Center had an unnecessary amount of stagnant client files.

Recommendations

We recommend that the District Director of the SBA Boise District Office require the ISBDC State Director to:

- 3A. Reiterate to the Center the importance of including as counseling only those hours rendered to small business entities.
- 3B. Implement internal controls to prevent counselors from recording an unreasonable number of counseling hours in one day.
- 3C. Reiterate to the Center the importance of accurately reporting travel when several clients are visited in the same geographic location.
- 3D. Reiterate to the Center that time expended on closing client files should not be counted towards the center's counseling accomplishments.
- 3E. Implement internal controls to ensure that client files do not remain open more than 120 days without a required follow-up review or counseling session.

Auditee Comments

The ISBDC State Director did not agree that time expended on closing client files should not be reported as counseling. The counting of administrative time in consulting was directed by the State Office to better account for the true cost of serving a small business client. The administrative time accounts for providing closing letters to the clients and for collecting evaluation and impact data.

The ISBDC State Director agreed with all other deficiencies and recommendations cited under Finding 3 and has already implemented procedures to ensure that client cases are reviewed after 120 days with activity to determine if the client case should be closed.

Evaluation of Auditee Comments

An official of SBA's Office of Small Business Development Centers informed the auditors that SBDCs should not count secretarial time spent closing files toward counseling accomplishments. Accordingly, we continue to support our position.

The ISBDC State Director's planned and implemented actions are responsive to all other recommendations cited under Finding 3.

FINDING 4: Errors in Reporting Program Income

Program income reported by the Center was inaccurate and did not reconcile to the accounting records. The Center inaccurately reported program income because (1) \$970 of program income received during 1996 and 1997 was not recorded in one of the two accounts used to record and report program income and (2) \$5,000 received from the lead center for the promotion of the "TechHelp" program in 1997 was mistakenly reported as program income when it should have been accounted for as cash matching funds. In addition, \$3,400 of reported 1997 program income expenditures were not recorded in the accounting system. The cooperative agreement defines program income as gross income earned by the SBDC that is directly generated by a grant supported activity or earned as a result of the cooperative agreement with SBA. It also requires all program income to be reported to SBA.

In an examination report dated August 26, 1998, SBA noted that another ISBDC center's 1997 reported program income did not reconcile with the host institution's accounting records. As a result of that examination, SBA recommended that the ISBDC ensure that all centers timely reconcile program income accounts. Accordingly, this report will not include that same recommendation.

Recommendations

We recommend that the District Director of the SBA Boise District Office require the ISBDC State Director to:

- 4A. Implement controls to ensure that all program income is reported.
- 4B. Reiterate to the Center the definition of program income.

Auditee Comments

The ISBDC State Director agreed with the finding and recommendations and stated the Center would act to strengthen training and procedural controls to ensure the proper classification of revenues and expenses is made.

Evaluation of Auditee Comments

The ISBDC State Director's planned actions are responsive to our recommendations.

FINDING 5: Incomplete Records for Training Activities, Revenue Deposits and Conference Room Rental Agreements

The Center did not (1) maintain sufficient support for non-SBA approved training, (2) provide an audit trail that allowed training fee revenue to be traced to account deposits, and (3) provide support for rental rates paid to the IIC. The cooperative agreement requires the ISBDC to maintain complete and accurate records, as well as supporting documentation to support and facilitate any thorough financial and/or program audit.

Insufficient Support for Non-SBA Approved Training

Conference room rental invoices indicated the Center conducted at least two non-SBA approved training sessions in 1996. The Center did not maintain a database for non-SBA approved training and did not maintain other adequate documentation to verify that non-SBA approved training occurred. The Center provided the IIC conference room scheduling book and the instructor's planners as support for all questioned training, and provided a press release and partial roll sheet for one session. This documentation alone did not provide the support to facilitate a thorough audit of all Center training activities.

Incomplete Revenue Deposit Records

The Center did not maintain complete records to allow training revenue to be traced to account deposits. The Center maintained a payment record for each training session; however, the record was destroyed upon receipt of payment from all attendees. A single deposit covered multiple training sessions, and the deposit records did not provide a break down of the amount allocated to each session. Accordingly, the auditors were prevented from verifying the amount of revenue collected and deposited for a particular session.

Insufficient Support for Rental Rates Paid

The Center paid \$90 and \$75 per day for use of the IIC's conference room during 1996 and 1997, respectively. Undated conference room guidelines, provided during the audit, stated the conference room rental rate was \$45 for a full day. During the exit conference, the auditors were informed that (1) the rate schedule provided did not cover

the dates in question, and (2) the Center Director and the IIC Director had a verbal adjusted rate agreement. The Center did not provide sufficient, written, supporting documentation for the adjusted rate agreement and conference room rental payments.

Recommendations

We recommend that the District Director of the SBA Boise District Office require the ISBDC State Director to:

- 5A. Direct the Center to maintain all non-SBA approved training records and maintain a database of all training conducted by the Center.
- 5B. Direct the Center to develop a financial transaction page for each training session that lists all deposits and expenses and ensure that each item is easily traceable to the accounting records.
- 5C. Direct the Center to enter into a written memorandum of understanding with the IIC that outlines at a minimum, negotiated charges for conference room rental, equipment rental, office space, and any other items shared in common.

Auditee Comments

Finding 5 was developed as a result of discussions during the exit conference. Consequently, the ISBDC State Director did not have the opportunity to respond directly to the cited deficiencies and recommendations. He did, however, state that he would work with the Center to ensure strong systems are in place to ensure that documentation is improved. He also agreed that a formal agreement is needed between the IIC and ISU to describe the use of facilities, equipment, and shared items. He further stated that he would take an active role in the process to ensure an agreement is in place by May of 2000.

Evaluation of Auditee Comments

The ISBDC State Director's planned actions are responsive to our recommendations.

SBA Management's Response and OIG Evaluation

The District Director of the SBA Boise District Office concurred with the findings and recommendations. His comments are included as Attachment 2 and are responsive to our recommendations.

* * *

The findings included in this report are the conclusions of the Auditing Division based upon the auditors' testing of the auditee's operations. **The findings and recommendations are subject to review and implementation of corrective action by your office following the existing Agency procedures for audit follow-up and resolution.**

Please provide us your management decisions for the recommendations within 80 days. Record your management decisions on the attached SBA Forms 1824, Recommendation Action Sheet, and show either your proposed corrective action and target date for completion, or an explanation of your disagreement with our recommendations.

This report may contain proprietary information subject to the provisions of 18 USC 1905. Do not release to the public or another agency without permission of the Office of Inspector General.

Should you or your staff have any questions, please contact Robert G. Hultberg, Acting Director, Business Development Programs Group at (202) 205-7204.

Attachments



ISBDC

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IDAHO SMALL BUSINESS DEVELOPMENT CENTER

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November 12, 1999

Victor R. Ruiz
U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416

Re: Your Letter, Draft Audit Report on the Idaho Small Business Development Center Idaho Falls Regional Office, dated October 20, 1999

Dear Mr. Ruiz:

First, I want to express my commitment to continue to ensure that the Idaho Small Business Development Center is providing highest quality services to the small business community. Just as important is our commitment to meet our requirements in our agreement with the U.S. Small Business Administration. It is our intent to do the best job possible.

Thank you for the opportunity to respond to the findings and recommendations in your report. You have identified areas that we need to improve. Most significant is the lack of documentation. I have and will continue to work with the Idaho Falls office and the entire network to ensure we have strong systems in place to ensure our documentation is improved.

The following is Boise State University's response to recommendations in the draft report. As we discussed in October, I asked Idaho State University to provide a response to your findings and I have attached their comments.

Findings 1A & B. We believe we have the documentation that adequately supports the expenditure of funds to provide for conference room, equipment, and instructors. Additionally, the charges are reasonable for the facilities and equipment provided given our relationship with the Idaho Innovation Center. (See Idaho State University's response)

Finding 1C. We agree that a formal agreement is needed between the Idaho Innovation Center and Idaho State University to describe the use of facilities, equipment, and shared items. The State Director will take an active role in this process and ensure an agreement is in place within the next six months.

Finding 1D. The ISBDC does have a written policy that requires adequate documentation of in-kind contributions. The State Office is in the process of developing a systematic, on-site review of all financial documentation by Boise State University Grants Accounting to ensure documentation meets standards.

The ISBDC is a Partnership of
Idaho's Institutions of Higher Education, Idaho's Private Sector, and the U.S. Small Business Administration

November 12, 1999

Finding 1E & F. We believe we have the documentation that adequately supports the expenditures of funds to provide for NxLevel training and consulting.

Finding 1G. We agree with the finding and have recovered the \$259.

Finding 1H. We believe we have the documentation that adequately supports the expenditure of funds to provide for NxLevel training and is consistent with Idaho State University policy.

Finding 2A. The State Director will develop a training program to ensure the accurate completion of all SBA report forms, including SBA Form 888s.

Finding 2B. We believe that all training provided by the ISBDC is reasonably priced.

Finding 2C. The State Office will instruct regional offices on the proper criteria for reporting training and to implement oversight procedures.

Finding 3A. The State Director will ensure only consulting to for-profit businesses is reported.

Finding 3D. We agree that time expended outside of the SBDC time should not be counted in consulting hours. The review of NxLevel business plans is certainly part of the NxLevel program to serve our clients. Unlike most training events, NxLevel is a marriage of training and consulting to take advantage of the strength of each. We present material in the classroom that is applicable to all and provide individual consulting to provide tailored solutions. The counting of administrative time in consulting was directly by the State Office to better account for the true cost in hours of serving a small business client. The administrative time accounts for providing closing letters to the clients and for collecting evaluation and impact data.

Finding 3E. Idaho State University is confident that BERT tasks were not performed on SBDC time. (See Idaho State University comments.)

Finding 3F. We have implemented procedures to ensure client cases are reviewed after 120 days with activity to determine if the client case should be closed.

Finding 4A B. As stated in Finding 1D, the State Office is in the process of developing a systematic, on-site review of all financial documentation by Boise State University Grants Accounting to ensure documentation meets standards. This review will include the proper reporting of program income.

I would like to suggest that we meet in Idaho Falls to resolve the issues where we believe the documentation is available to support our findings which are not consistent with yours. This provides an opportunity to resolve any differences. My goal is to ensure the Idaho Small Business Development Center is responsive and meeting the needs of our partner-the U.S. Small Business Administration.

November 12, 1999

If I can provide any further assistance, please call at 426-3799.

Best regards,

/s/

Jim Hogge
State Director

Atch: ISU Idaho Small Business Development Center Audit

November 10, 1999

To: Jim Hogge, State Director
Idaho Small Business Development Center

From: Kenneth Smith Ph.D., CPA
Associate Dean, College of Business

Cc: Ken Prolo, Financial Vice President
Roger Egan, Director of Auditing Services
Bill Stratton, Dean – College of Business

Subject: Idaho Small Business Development Center Audit

I reviewed the draft report from the Office of Inspector General and believe that most of the findings and recommendations are without merit. As a CPA and professor specializing in auditing, I am disappointed that the auditors came to these conclusions without seeking better explanations from the Idaho Falls SBDC management and staff.

Many of the recommendations result from lack of documentation in the SBDC files. These recommendations are appropriate and require immediate attention. The Idaho Falls SBDC director has determined that she must place greater emphasis on record keeping and staff training. Proper records have been maintained, but source documents are not easy to find. Many of these problems occurred because the SBDC secretary left in April of 1996 and the limited budget caused the SBDC to rely on part-time student work-study secretarial help. The auditor recommendations to strengthen internal controls for record keeping are valid and are being acted upon.

My specific conclusions follow in the order of each finding.

Finding 1: Unallowable Costs

(1-1) Questionable payments for conference room, equipment, and instructors:

The auditors that \$3,775 was paid for training that did not occur. They do not explain how this conclusion was reached, but my review of SBDC records shows that ample evidence exists that training did, in fact, occur on the days in question. The conference room scheduling book shows the room was reserved, instructors' log books show they taught the courses on those days, there are roll sheets for business people who attended, ISU records indicate that revenue was received and deposited and expenditures made. It is not clear how the auditors reached their conclusion, but the SBDC director, the Idaho Innovation Center director, and the secretaries for both organizations tell me that the auditors never requested any of the corroborative information.

In addition, the auditors indicate that \$1,825 of excessive charges was made for conference room rentals for other meetings. This is apparently based on an incorrect understanding that the IIC rate was \$45 for a full day. In fact, the IIC charges in 1995 were \$45 for a half day, \$75 for a full day, and an additional \$15 cleaning fee. Equipment charges and refreshments added \$42.50. In September 1996, the room charges were increased to \$55 per half day and \$100 for full day. Equipment charges are \$40 and refreshments are \$15.

The SBDC classes were 4 hours in length, but the program included consulting with the attendees prior to and immediately after the class. The instructor would present material during the class period and then meet with the attendees individually to help each of them to incorporate the material into a specific business plan. Thus, the typical commitment for room time was 6 hours per day. The SBDC and IIC directors negotiated a special fee of \$125, including equipment, which seems very reasonable. This rate is especially reasonable when compared to costs of renting similar classroom space elsewhere in Idaho Falls (or anywhere else), where a typical rental rate for similar meeting rooms is \$150 without equipment.

The auditors note that IIC and SBDC have an informal agreement allowing free use of the room for co-sponsored training programs, but none of these Fast Trac or NxLevel program were co-sponsored functions. The Board of Directors of the ICC requires that a rental fee to be charged for any organization using the facilities for a revenue generating function. The IIC does make the conference room available to the SBDC for operational functions other than training at no charge, an arrangement that has allowed the SBDC to deliver more services to small businesses with a very small budget. The agreement between the SBDC and IIC has been very advantageous to us because the IIC provides us with free office space and an opportunity to share clerical costs.

(1-2) Inadequately Supported in-kind Contributions:

The auditors indicate that donated services used for in-kind match were not adequately supported. After the 1995 audit, the Idaho SBDC State Director instituted a new reporting form that supports in-kind match donations. The Idaho Falls center gets these forms signed by the donor and submits them to the Idaho State University Grants and Contracts offices as support for the in-kind match. These records are retained by Dan Wolfley in Pocatello. The records available at ISU do support the in-kind match. The auditors do have a valid point in that the supporting documentation form could be improved by adding more detailed information about the donor to justify the reasonableness of the donation valuation.

(1-3) Inadequately Supported Consulting Payments:

The auditors indicate that payments to a consultant [FOIA Ex. 4&6] should not be allowed because of inadequate support. They suggest that double billings may have been paid for the period from January to May of 1997. In fact, SBDC time report submitted

by consultants and forwarded to the State SBDC show that [FOIA Ex. 4&6] actually worked 359.35 hours during the period from January through May of 1997, but only billed for 154.5 hours. The training classes taught by Mr. [FOIA Ex. 4&6] and the related consulting with small business clients that is part of the NxLevel program clearly support the reasonableness of those invoices. Again, the auditors did not request any of this corroborating information that was available in the computer information system.

The auditors indicate that 52 hours of NxLevel consulting was provided in July 1997 while no training courses were held during that period. Apparently the auditors do not understand the nature of the NxLevel program. The purpose of the training classes was followed by consulting services to assist the business people in implementing the coursework. The specific consulting during July 1997 was to help those business people who participated in the June courses to implement the new knowledge into effective business plans. The NxLevel program and the SBDC mission required consulting with these business people to supplement the material taught in class sessions.

(1-4) Improper Travel Reimbursements:

This finding is correct. The Idaho Falls SBDC director has reimbursed the University for this error of paying mileage twice on the same trip. The error arose because of part-time secretarial staff and delayed reporting of travel expenses. New internal reporting forms have been instituted (in 1998) to insure timely reporting by travelers to the secretaries and prompt preparation of reimbursement requests.

(1-5) Unallowable Salaries:

This finding results from finding (1) above. Faculty salary payments are disallowed because the auditor concluded that no meetings took place between July and September, 1996. As explained above, there is ample evidence that the meetings did take place. The fact that the Grants and Contracts Director at ISU paid the salary and stated to the auditor that the amounts were reasonable is additional evidence that the meetings took place during that period.

My Conclusions:

Recommendations C, D, and G are valid and should be acted upon. The Idaho Falls SBDC will enter into a written memorandum of understanding with the Idaho Innovation Center clearly showing the service and cost arrangements for use of the IIC space. Increased attention will be placed on training of staff to insure that in-kind donations are clearly documented. The statewide documents for in-kind donations should be modified to include more detailed information about the donor that will support the claimed valuation.

The other recommendations suggesting that funds be recovered are rejected as not supported by the facts.

Findings 2: Training Irregularities

(2-1) Reported Training Fees and Disclosures of a Co-sponsor:

As indicated on the SBA Form 888s, the four training programs (January through October) reported that NxLevel training did occur. This training was sponsored solely by the SBDC and all of the revenues were allocated to the SBDC. The Idaho Innovation Center (which is not related to the SBDC) had a subsequent contract with [FOIA Ex. 4&6] beginning in October of 1997. The IIC assisted the SBDC in presenting the October 21 session and the Form 888 shows that assistance. However, the IIC was not a co-sponsor and all of the revenue went to the SBDC.

The fact that the IIC subsequently charged [FOIA Ex. 4&6] approximately \$11,000 is totally irrelevant. The IIC training under that contract occurred after the SBDC courses and did not involve the SBDC. The auditor states that the SBDC charged excess fees of \$6,785. In fact, the ICC charged [FOIA Ex. 4&6] for training that was unrelated to the SBDC and the IIC, not the SBDC, charged the \$11,000. The auditor seems to be confusing the IIC with the SBDC. The IIC is the SBDC's landlord.

(2-2) Inappropriate Reporting of Training:

The auditors conclude that a training program attended only by SBDC and IIC employees should not have been reported on Form 888 as training provided to small business persons and entities. I am not aware of the specific technicalities for reporting sessions under different categories. However, the training program was set up as a service to small business entities served by the SBDC. The fact that nobody signed up for the program other than IIC and SBDC does not change the purpose of the training. The session had been arranged in advance and could not be cancelled at the last moment. In addition, it seems to me that training the consultants provides training to other small business entities served by those consultants.

My Conclusions:

The SBDC does not charge excessive fees for training and therefore, there is no need to strengthen controls in that area. The auditors may be right about whether this particular training program should be reported on form 888. I am not qualified in the specific regulations involved in this reporting. Recommendations to strengthen controls concerning proper filing of Form 888 will be addressed.

Finding 3: Overstated Counseling Hours

The auditors state that counseling hours were overstated by 3% in 1997 and 4% in 1998. Their rationale is that visits with a rural Economic Development Officer and a Business

Information Center Director do not qualify as consulting. That is an extremely narrow view. These individuals are the liaisons between the SBDC and client businesses in the rural areas. The consulting with them is passed on to the businesses as direct assistance in most cases. The consultants work with several businesses in the areas through the EDOs in that area. The time spent visiting these individuals is necessary in setting up the NxLevel training sessions and enrolling small businesses. Similarly, secretarial time maintaining consulting files is a necessary part of the consulting effort.

The SBDC Director and staff recognize that it is important to develop the most accurate information possible a data entry controls in the software or a review process should be implemented to catch clerical errors. However, the 3% or 4% overstatement of hours in this case is probably not significant since the reported consulting hours are maintained to demonstrate that the SBDC has hit targets set up by the state SBDC. In fact, the targets were exceeded by more than 10%.

The auditors note that travel time was being improperly reported in some cases where one trip served multiple clients. This observation is correct and the consultants now report travel time by allocating among the clients. It should be noted that this reporting of travel time did not affect reimbursements or other expenses.

The auditors note that time spent by the counselors reviewing NxLevel training course participants homework was reported as consulting, while it should be prep time. That conclusion again indicates that the auditors misunderstand the NxLevel program. The clients learn to prepare a business plan in the classes and the counselors then follow up with consulting help to refine and implement those plans.

The auditors indicate that consulting was claimed by the SBDC for services provided to clients by an SBDC counselor under a separate non-SBA program (Business Expansion and Retention Fund – BERT). The counselor did work for an external organization that had contracts with BERT. Those hours were accounted to that organization, which paid the consultant. The SBDC also provides services to the small businesses, including NxLevel training and consulting. The SBDC mission is to serve small businesses in the region and these consulting services were entirely appropriate, as they would be to any other small business requesting assistance. The hours counted toward the Regional Office milestones were these additional consulting hours and did not include the separate hours worked for the external organization under the BERT program. It is not clear whether the auditors are objecting to the SBDC serving small businesses that are also served by the Idaho Falls BERT fund, or whether they are claiming the same hours are counted twice. The first objection would be inappropriate and the second objection is not correct.

The auditors note that many client files remain open for more than the 120 days without a follow-up review. That is a correct observation that surprised the SBDC director and staff. The information system has been corrected to flag those files for more timely processing.

My Conclusions:

All of the recommendations concerning system improvements are being implemented currently. The recommendation about seeking reimbursement from the counselor for performing BERT tasks on the SBDC time is inappropriate since that did not occur.

Finding 4: Inaccurate Reporting and Accounting of Program Income

The auditors report that some program income was recorded in other accounts in 1996 and 1997 and that some grant income for “TechHelp” was mistakenly recorded as program income. The SBDC was in a period of transition during that period and staff training has now improved so that such errors should not occur.

My Conclusions:

The auditors are correct and we will act to strengthen training and procedural controls to insure that proper classification of revenues and expenditures is made.



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DATE: March 1, 2000

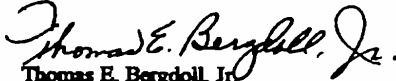
FROM: Thomas E. Bergdoll
District Director
Office of the District Director

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Audit of the Idaho Falls Regional Small Business Development Center

I have reviewed your findings and recommendations in connection with the audit of the Idaho Falls Regional Small Business Development Center. I agree with your findings and recommendations in each case. I will issue a letter to the state director, Jim Hogge, informing him of the corrective actions that we require upon receipt of the final report.

Thank you for your assistance in this matter.


Thomas E. Bergdoll, Jr.
District Director

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